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C O N F I D E N T I A L SECTION 01 OF 04 TOKYO 001068

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SUBJECT: JAPAN PLACING IMPORTANCE ON TIES TO INDONESIA

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Classified By: CDA James P. Zumwalt for reasons 1.4 (b) and (d)

11. (C) SUMMARY: Japan sees Indonesia as the pillar of Tokyo's foreign policy in Southeast Asia. Recent discussions between Embassy Tokyo and Indonesia watchers suggest that Japan sees the world's largest Muslim country as an integral part of Japan's strategy in the region. Indonesia's large business market, oil and gas rich geography, and its role as potential political counterweight to China are spurring Japan to move relations beyond the official development assistance (ODA)-based parameters that have defined the relationship since the 1950s. The Secretary's February visit to Indonesia and to the ASEAN Secretariat hold particular significance for Japan. The trip points to Washington's plans to bolster U.S. engagement in the region and provides opportunities for broader U.S.-Japan cooperation on the world's largest archipelago. END SUMMARY

12. (C) Japan sees Indonesia as the pillar of Tokyo's foreign policy in Southeast Asia. Recent discussions between Embassy Tokyo and Indonesia watchers suggest that Japan sees the world's largest Muslim country as an integral part of Japan's diplomatic, security, and economic strategy in the region. Indonesia's large business market, oil and gas wealth, and its role as potential political counterweight to China are compelling Japanese decisionmakers to emphasize bilateral ties and to move relations beyond the official development assistance (ODA)-based parameters that have defined the relationship since Indonesia's independence. The days of just giving ODA "are over," declared Diet member and international affairs expert Masamitsu Naito. One year removed from the 50th anniversary of the establishment of diplomatic relations, Japan enjoys its "deepest and best relationship" with Indonesia among all members of the Association of Southeast Asian Nations (ASEAN), ruling Liberal Democratic Party (LDP) stalwart and Japan-Indonesia Parliamentary Friendship League chair Taku Yamasaki mentioned recently to Embassy officers. Indonesia -- an original ASEAN member and home to the ASEAN Secretariat -- is the "regional

linchpin," several Japanese interlocutors added separately. These observers are quick to highlight Indonesia's unique status as ASEAN's largest member.

13. (C) Japan views Indonesia as a country that is reassuming regional leadership after a decade of domestic turmoil and making positive contributions in areas such as security and economics, Japanese Ministry of Foreign Affairs (MOFA) Second Southeast Asia Division Director Hiroshi Ishikawa explained. Indonesia was the only ASEAN country to attend the July 2008 G-8 Summit in Japan and is the only ASEAN member of the G-20.

Indonesia has become a viable future strategic partner for Japan in Southeast Asia, Ishikawa broadly assessed. Yamasaki pointed out that during a recent domestic conference involving the LDP and roughly 30 Japanese ambassadors posted to the Asia-Pacific region, conference organizers allotted speaking time only for the Japanese Ambassador to Indonesia -- as well as the representatives from China and South Korea -- because of the importance Japan places on that country. The changing nature of bilateral relations reflects growing Japanese confidence in Indonesia's efforts to become a key player on the regional and international foreign policy stage.

Unfettered by History

14. (C) History does not burden Japan's relations with Indonesia. The annals of Japan's colonial and World War II past have little effect on current ties, Indonesian Embassy Political Counselor Ardi Hermawan recently explained. Indonesians are a "forgiving people," he added. Indonesia,

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of course, suffered greatly at the hands of Japanese occupiers, whose forced labor programs and brutality sowed a legacy of distrust toward Japan that still pervades in much of the region. Indonesians, however, also acknowledge some of the long-term, more positive consequences of the Japanese colonial experience that helped expedite Indonesian independence immediately following Japanese surrender. For example, under Japanese rule, Indonesians ascended to decisionmaking positions that were otherwise unattainable under Dutch rule. Japan also provided widespread military training that, although part of the Japanese war effort, later proved to be an asset in Indonesia's confrontation against reoccupying Dutch forces.

15. (C) Partly as a result, Indonesia does not harbor the same level of resentment for Japan's perceived dismissal of colonial-era accountability as other Asian countries, such as China, Philippines and South Korea. Yamasaki described Indonesian sentiment toward Japan as "pretty good," in part because Indonesians recognize some of the aforementioned historical nuances. Indonesians and Japanese have "no bad feelings" toward each other, he added. He guessed that ninety percent of Indonesians would say they "like Japan." This neutral approach to history allows both sides to adopt a forward-looking approach to the relationship, explained Ardi.

Political Ties Growing

16. (C) Bilateral ties are maturing, most interlocutors agree, in part because of increasingly favorable political conditions in Indonesia. Japanese officials underscore the importance of Japan's support for Indonesia's ongoing democratization process and consolidation of the rule of law, human rights, sound governance, and open media. They see the nascent Bali Democracy Forum -- an annual high-level Jakarta-initiated conference aimed toward promoting regional and international cooperation on democratization and political development -- as a chance for Indonesia to

showcase regional leadership and as an opportunity for Japan and other third countries to share ideas and experiences on efforts to strengthen democratic processes. Japan also has focused on parliamentary exchanges. Yamasaki led a Friendship League delegation to Indonesia in July 2008 and broached the concept of developing a "strategic partnership."

Also last year, both sides established the Executive Committee of the Japan-Indonesia Friendship Year and held roughly thirty events in celebration of the 50th anniversary of diplomatic relations. Indonesia is "moving in the right direction," and "can not turn back," Ritsumeikan University Associate Professor Jun Honna observed.

¶17. (C) Japanese credit Indonesian President Susilo Bambang Yudhoyono (SBY) for political progress. Embassy interlocutors universally rate Yudhoyono as a success. He has been Indonesia's "most stable" president, LDP Diet member Yamasaki noted. Yudhoyono is smart, clean and pro-United States, he added. He is rational and practical, and he has surrounded himself with a professional staff, not cronies, Honna said separately. SBY, moreover, understands the role of ASEAN and China in the region. Polls show that SBY has gained public support through his efforts to promote democracy, maintain macroeconomic stability, and expand civilian control of the military, Honna observed. Embassy interlocutors regularly contrasted Yudhoyono's triumphs with the perceived failures of his predecessor, Megawati Sukarnoputri. They expressed particular concern about her potential comeback on the Indonesian political scene.

¶18. (C) Embassy interlocutors generally agree that the

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Indonesian political environment looks "quite stable" on the eve of the country's only second direct presidential election in July. Political challenges remain, however. Arcane and opaque political finance laws, expensive campaign costs, and the current economic crisis complicate any effort to groom new, young political candidates, Honna asserted. "As an aspiring politician in Indonesia, you can be popular with no money, or not popular with much money."

Economic Ties Expanding Beyond ODA

¶19. (C) Japan also has sought to expand trade and business ties to Indonesia. Tokyo concluded an economic partnership agreement (EPA) with Jakarta in July 2008 as part of broader effort to expand trade ties to the region; Japan enjoys individual EPAs with all original ASEAN members as well as with the Association as a whole. The Indonesia EPA is the first time Japan has used an EPA specifically to encourage investment flows into the target country, officials from MOFA's Second Southeast Asia Division recently explained. A key challenge resulting from the EPA is developing sound language training programs for Indonesian nurses and caregivers working in Japan and overcoming domestic perceptions that foreign workers will generally lead to poorer working conditions in Japan.

¶10. (C) Robust business relationships and Japanese investment are factors in the growing relationship, Yamasaki noted. Jakarta has "done well" to improve the local investment climate since the authoritarian regime (1966-1998) of President Suharto. Post-Suharto, Indonesia also suffered from inflation and rising domestic gasoline prices, which made daily life difficult, but conditions have "stabilized," Yamasaki stressed. Indonesia has become more inviting for Japanese business interests, moreover, because of Jakarta's counterterrorism efforts, Associate Professor Honna said. Japanese no longer see Indonesia as a terrorism "hotspot." Indonesia has not suffered a major terrorist incident in more than three years and many Jemmah Islamiyah members have been arrested.

¶11. (C) Although bilateral ties have expanded beyond the ODA-centric policies of the past, aid still plays a critical role in Japan's policy toward Indonesia, historically Japan's top ODA recipient. Japanese MOFA contacts explain that Indonesia relies on Japan as a donor nation in part to avoid borrowing money from the IMF. For its part, Japan has traditionally leveraged ODA to garner support for Japanese policy preferences and objectives, such as Japan's longstanding bid for permanent membership to the UN Security Council, and to back Japanese business interests. Major ODA recipients such as Indonesia understand such "ODA politics," Yamasaki asserted.

¶12. (C) Japan, however, is using its aid programs more effectively and in ways that compliment the United States, particularly in areas of poverty reduction, political stability, human security, and post-conflict development, Honna asserted. The Foreign Ministry's FY09 ODA regional project plan singles out Indonesia among other Asian nations, because of its status as the pillar of ASEAN, location among sea lanes in the Strait of Malacca, and wealth of natural resources. The plan cites environment and climate change, alternative energies, disaster preparedness, and counterterrorism as key areas of focus. For FY08, Japan committed roughly 120.5 billion yen in project aid, including 1) 18.6 billion yen, announced March 24, to promote economic and social reform, as well as poverty alleviation under the "Fifth Development Policy Loan," and infrastructure reform under the "Second Infrastructure Reform Sector Development

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Program," 2) 71.2 billion yen in loans, announced March 31, to support various social development projects in areas such as urban flood control, dam preservation, mass transportation, and electrical power, and 3) roughly 30.7 billion yen for climate-change related projects. In February, Japan also agreed to guarantee Indonesia yen-denominated government bonds and doubled its bilateral currency swap agreement with Indonesia on the margins of the ASEAN Plus Three Finance Ministers meeting in Thailand.

Security Ties Important

¶13. (C) Littoral island issues and sea lane defense have become critical drivers in Japan's regional security cooperation efforts with Indonesia, Embassy interlocutors stressed. Japan wants to participate in efforts to secure the region's sea lanes, particularly the Strait of Malacca, a critical shipping channel for Japan, they explained. Indonesian Embassy officers point to Japan's decision to give exception to arms exports laws and to provide Jakarta with three patrol vessels in 2006. MOFA officials also highlight Japanese assistance to Indonesian police forces. Japan has been engaging in technical assistance to support the reformation and improvement of Indonesian police since 2002, they note.

Indonesia Key to Curbing Chinese Influence

¶14. (C) Japanese officials see stronger ties to Indonesia as part of a larger strategy to curb China's growing influence in Southeast Asia. Japan faces increasing competition from China for energy resources, for example. Indonesia remains Japan's top LNG supplier -- providing one-fifth of Japan's total needs -- but Indonesia's decision to cut LNG exports to fuel increasing domestic demand leaves Japan competing for a smaller pool of resources. MOFA contacts also point out that, while China bases its policies only minimally on shared international interests, Japan and Indonesia share values grounded in democracy and rule of law. They see Indonesia as taking a cautious approach to China, in contrast to other ASEAN members, particularly those in the Mekong region, which

seem to be falling under China's orb of influence. Indonesia represents the complex and varied views that ASEAN capitals hold in general toward the Chinese, MOFA officials concluded.

Welcomes Broader Cooperation with the United States

¶15. (C) The Secretary's February visit to Indonesia and to the ASEAN Secretariat hold particular significance for Japan.

The trip highlighted Washington's plans to bolster U.S. engagement in the region and, to the relief and satisfaction of concerned regional capitals, conveys a renewed, long-term commitment to Southeast Asia, MOFA contacts stressed. There is room for broader U.S.-Japan cooperation on the world's largest archipelago, particularly in the realms of education, counterterrorism, social development, democratization, and anticorruption, our interlocutors regularly note.

Counter-radicalization, law enforcement, border control, and counter-illegal fishing are additional potential areas for future joint cooperation on Indonesia, Honna noted. Japan often has the will but not the capacity to carry out efforts in Indonesia and thus needs to work closely with the United States, Honna concluded.

ZUMWALT